

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch**

**RESOLUTION T-16782
December 18, 2003**

R E S O L U T I O N

Resolution T-16782. Approval of the California Teleconnect Fund (CTF) Administrative Committee Fund Budgets for Recasted Fiscal Year (FY) 2003-04 and FY 2004-05 to Comply with the Requirements of Public Utilities Code Sections 270-281.

Summary

This resolution adopts a budget of \$38,682,000 for fiscal year (FY) 2004-05 and a revised budget of \$37,645,000 for FY 2003-04 for the CTF Administrative Committee Fund. It further continues the current surcharge rate of 0%. The revised FY 03-04 budget includes \$3 million to fund SB 720.

On May 29, 2003, the California Teleconnect Fund (CTF) Administrative Committee (AC) ^{1,2} filed with the Executive Director of the California Public Utilities Commission its proposed budget for July 1, 2004 through June 30, 2005.

Background

The California Teleconnect Fund was implemented under Decision (D.) 96-10-066 on October 25, 1996. In this decision, the Commission reaffirmed its commitment to universal service, and in accordance with state and federal directives, created the CTF to provide discounted rates for a family of telecommunications services for schools and libraries, government-owned health care providers and qualifying community based organizations.

In October 1999, PU Code sections 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). Section 270(b) requires that the monies in

¹ Pursuant to Public Utilities Code section 275 (a), the CTF-AC functioned as an Advisory Committee, not as an Administrative Committee, after September 30, 2001.

² Pursuant to Public Utilities Code section 270 (a) (6), the fund name will be California Teleconnect Fund - Administrative Committee Fund.

the CTF and five other funds may only be expended pursuant to sections 270-281 and upon appropriation in the annual Budget Act.

On May 29, 2003 the CTF-AC submitted a letter request to the Executive Director seeking the approval of the July 1, 2004 through June 20, 2005 budget of \$38.444³ million and a surcharge rate of 0.0%. This budget request was filed in accordance with Paragraph 4.1 of the CTF-AC charter. Further, this letter request is consistent with similar requests for other public programs that have submitted proposed FY 2004-05 budgets for Commission consideration.

Notice/Protests

Notice of the AC's budget letter request was published in the Commission Daily Calendar of October 2, 2003. No protest to the letter request was received by the Telecommunications Division.

Legislation Affecting the Budget Process for the California Teleconnect Fund

AB 855

AB 855, signed by the Governor on October 10, 2003, among other things, adds Section 280.5 to the Public Utilities Code. Section 280.5 provides that fifteen percent of funds from wireless telecommunications leases made pursuant to this legislation, except for CalTrans leases and leases existing as of the date of this legislation, shall be available upon appropriation, for the purpose of addressing the state's digital divide. Section 280.5 provisions include the following:

- Revenues shall be deposited in a Digital Divide Account, a sub-account of the California Teleconnect Fund. Digital Divide account funds are to be used only for digital divide projects.
- Prohibits the Commission from implementing the Digital Divide Grant program until at least \$500,000 is projected to be available for the calendar year following implementation.
- Requires grants to be competitive based on Commission-established criteria and to be broad based, including both urban and rural applicants.
- Requires recipients to report annually regarding the program's effectiveness.
- Requires the Commission to report on effectiveness to the Governor and the legislature annually.

Since the Commission is not authorized to implement the Digital Divide Grant program called for in AB 855 until at least \$500,000 is projected to be deposited in the Digital

³ The FY 04-05 Program Expense Total submitted was \$38.337. There were some calculation errors and the total listed above is the corrected amount.

Divide account, the Commission is unable to budget for this program at this time. The Commission will be able to budget for AB 855 when

- 1) Wireless telecommunications leases are entered into pursuant to the new Section 14666.8 of the Government Code.
- 2) Fifteen percent of the proceeds of these leases is projected to amount to at least \$500,000.

When these two events occur, the Commission will consider a budget resolution to identify the required appropriation for the digital divide account. In the meantime, Commission staff will assemble a working group to develop broad outlines of how a Digital Divide Grant program should be established.

SB 720

SB 720, signed by the Governor on October 10, 2003, amends Section 884 of the Public Utilities Code to provide that if the funds expended from the California Teleconnect Fund are less than the amounts appropriated in the annual Budget Act; \$3,000,000 of the unencumbered difference may be used to fund no more than a 40% discount of one-time installation costs of advanced telecommunications services for entities not having access to advanced telecommunications services. This provision applies to Fiscal Years 2003-04 and 2004-05.

The amount appropriated for Fiscal Year 2003-04 is \$40.004 million. The recast budget for 03-04 is \$34.645 million. The difference between the appropriation level and the recast budget is \$5.359 million. Thus the funds appropriated will likely exceed the funds spent by enough to fund SB 720 for the 03-04 fiscal year. A \$3 million line item is added to the revised 03-04 budget. This reduces the funds available for 04-05 by \$3 million. Provision for 04-05 funding for SB 720 cannot be done at this time because it is not known at this time if there will be a gap between the budgeted amount and the funds expended for that year.

Program Expansion

In response to SB 1963 the Commission adopted Res. T-16742 on May 8, 2003. This resolution expanded the CTF by equalizing the services and discounts available to qualifying Community Benefit Organizations (CBOs) and health care providers to that available to schools and libraries. Eligibility for CBOs was also expanded. These changes will result in an increased demand upon the fund. TD has included in the FY 04-05 budget funding beyond the carrier forecast of demand to allow for program expansion due to Res. T-16742.

General Fund Loan

The 03-04 Budget Act (AB 1765) in paragraph 8660-011-0493 provided for a \$150 million transfer from the CTF to the General Fund. The language of paragraph 8660-011-0493 provides as follows:

The transfer made by this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan.

AB 1756, chaptered August 11, 2003, provides “that moneys loaned from the California Teleconnect Fund Administrative Committee Fund in the Budget Act of 2003 are subject to provisions governing the loan and repayment of moneys loaned from one state fund to another to address the 2003-04 fiscal year budgetary shortfall.” The Commission is prohibited from “increasing the rates authorized by the commission to fund the universal service program for schools, libraries, hospitals, health clinics, and community organizations while moneys loaned from the California Teleconnect Fund Administrative Committee Fund in the Budget Act of 2003 are outstanding unless certain conditions are satisfied. The bill would make these provisions inoperative upon full repayment or discharge of all moneys loaned from the California Teleconnect Fund Administrative Committee Fund in the Budget Act of 2003.” (AB 1756 Legislative Counsel’s Digest, Paragraph 29.)

AB 1756 further provides that if the Commission determines a need for the moneys in the California Teleconnect Fund Administrative Committee Fund, the Commission shall notify the Director of Finance of the need . . . and

The Commission may not increase the rates authorized by the Commission to fund the [CTF] while moneys loaned from the California Teleconnect Fund Administrative Committee Fund in the Budget Act of 2003 are outstanding unless both of the following conditions are satisfied:

- 1) The Director of Finance, after making a determination pursuant to subdivision (b) of Section 16320 of the Government Code, does not order repayment of all or a portion of any loan from the California Teleconnect Fund Administrative Committee Fund within 30 days of notification by the Commission of the need for the moneys.
- 2) The Commission notifies the Director of Finance and the Chairperson of the Joint Legislative Budget Committee in writing that it intends to increase the rates authorized by the Commission to fund the program specified in subdivision (a) The notification required pursuant to this paragraph shall be made 30 days in advance of the intended rate increase. (AB 1756, Sec. 46; PUC Code, Section 280)

Discussion

In this Resolution, the Commission adopts the following:

- The surcharge rate is continued at 0.0% until further revised by the Commission.
- The CTF program budget for FY 2004-05 in the amount of \$38,682,000
- The revised budget for FY 03-04 including the \$3 million called for in SB 720.

In Resolution T-16748 dated May 22, 2003, the Commission approved a \$34.512 million FY 2003-04 budget for the CTF and a projected ending fund balance of \$78.034 million. Appendix A of this resolution shows a comparison between the Commission adopted program budget and FY 03/04 as projected to October 31, 2003. A change in Interagency Costs from \$463 thousand to \$596 thousand is responsible for the \$133,000 change in the budget amounts. The updated budget will result in a projected fund balance of \$83.75 million as of June 30, 2004.

Appendix B of this resolution shows the FY 2004-05 CTF budget as proposed by TD and by the CTF Administrative Committee in May 2003. Of the \$38.682 million proposed budget for FY 2004-05, \$35.203 million is for claim payments submitted by the carriers providing CTF discounted services, \$2.1 million for financial, compliance and surcharge remittance audits, \$23,000 for banking fees, \$26,000 for Advisory Committee expenses, \$159,000 for Administrative/Staff Costs, and \$1.071 million for inter-agency, programming and maintaining the electronic and monitoring systems.

Based on the telecommunications surcharge revenue remittances for the past fiscal year and the forecast of such surcharge revenue remittances for FY 2002-03, the estimated intrastate billings subject to surcharge are \$20,947,125, 000 for FY 2004-05. The forecast is an increase of 4.5% from the FY 2003-04 estimated billing base of \$20,045,096,000.

The current CTF surcharge rate of 0% is maintained until further revised by the Commission.

Notice of Availability and Comments

In compliance with PU Code Section 311(g), the Commission had served a hard copy of prior resolutions regarding CTF budgets on all telecommunications carriers and the parties of record in R. 95-10-020/I95-01-021. To be consistent with the Commission's commitment to utilize the Internet for distributing Commission orders and information, the Telecommunications Division mailed a notice letter informing the telecommunications carriers, members of the California Teleconnect Fund Administrative Committee, parties to the Broadband proceeding and the parties of record in R. 95-01-020/I95-01-021 on the availability of this draft resolution as well as

the conformed resolution, when adopted by the Commission, on the Commission web-site, www.cpuc.ca.gov/static/industry/telco/resolutions/index.htm.

TD received no comments on this resolution.

Findings

1. In October 1999, Public Utilities Code (PU) Code Sections 270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code Section 270(b) requires that the monies in California Teleconnect Fund (CTF) Administrative Committee Fund may only be disbursed pursuant to Sections 270-281 and upon appropriation in the annual Budget Act.
3. Resolution T-16748 dated May 22, 2003 adopted a Fiscal Year 2003-04 budget of \$34.512 million with a fund balance of \$78.034 million.
4. The revised FY 2003-04 CTF budget, as shown in Appendix A, projects expenses to be \$37.645 million, including three million for Senate Bill 720, and an ending fund balance as of June 30, 2004 to be \$83.75 million.
5. The revised FY 2003-04 CTF budget, as set forth in Appendix A of this resolution, is reasonable and should be adopted.
6. On May 29, 2003, the CTF Administrative Committee (AC) submitted a letter request to the Executive Director seeking the approval of the CTF Fiscal Year (FY) 2004-05 budget of \$38.444 million and a surcharge rate of 0%.
7. The updated Telecommunications Division proposed budget for the CTF for FY 2004-05 of \$38,682,000, as set forth in Appendix B of this resolution, is reasonable and should be adopted.
8. The surcharge rate of 0.0% should be maintained for FY 2004-05 until further revised by the Commission.
9. Telecommunications carriers, members of the California Teleconnect Fund Administrative Committee, parties to the Broadband proceeding and the parties of record in R. 95-01-020/I95-01-021 were informed of the availability of the draft resolution as well as the conformed resolution, when adopted by the Commission, on the Commission web-site, www.cpuc.ca.gov.
10. TD received no comments on this resolution.

THEREFORE, IT IS ORDERED that:

1. The recasted California Teleconnect Fund (CTF) Fiscal Year (FY) 2003-04 budget \$37.645 million, as shown in Appendix A of this resolution, is adopted.
2. The CTF FY 2004-05 budget of \$38,682,000 as set forth in Appendix B of this resolution, is adopted.
3. The surcharge rate of 0.0% shall be maintained for FY 2004-05 until further revised by the Commission.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 18, 2003. The following Commissioners approved it:

/s/ WILLIAM AHERN

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD

LORETTA M. LYNCH

SUSAN P. KENNEDY
Commissioners

Commissioner Geoffrey F. Brown, being
necessarily absent, did not participate.

California Teleconnect Fund		Fiscal Year 03-04 as adopted	Fiscal Year 03-04 Revised		
PUBLIC PROGRAM BUDGET		5/22/03			
FOR FISCAL YEAR 2003-2004 (July 1, 2003 through June 30, 2004)		(\$ in 000's)	(\$ in 000's)		
A	FY 03-04 TELECOMMUNICATIONS REVENUE SUBJECT TO SURCHARGES	\$19,845,588	\$20,045,096		
B	SURCHARGE RATES	0%	0%		
	CASH		\$214,228		
	ACCRUAL FOR 01-02		-\$65,072		
	ACCRUAL FOR 02-03		-\$28,668		
1	BEGINNING FUND BALANCE	\$110,089	\$119,260		
2	PRIOR PERIOD ADJUSTMENTS 02-03 Revenues collected July- Oct 03		-\$273		
3	REVISED BEGINNING FUND BALANCE (sum of Ln 1 and Ln 2)	\$110,089	\$118,987		
4	REVENUES				
a	Surcharges (Ln A* Ln B)		\$273		
b	Investment Income (estimated on 2% on a declining balance)	\$2,457	\$2,135		
c	Others		\$0		
d	Total 03-04 Revenues (sum of a thru c)	\$2,457	\$2,408		
5	FUNDS AVAILABLE FOR FY 03-04 (Sum of Ln 3 & Ln 4)	\$112,546	\$121,395		
6	PROGRAM EXPENSES				
a	Carrier Claims	\$31,665	\$31,665		
b	Interest for Untimely Payment	\$100	\$100		
c	Other Program Services		\$0		
d	Administrative Committee-Per Diem*	\$5	\$5	see detail	
e	Administrative Committee-Travel and Others	\$6	\$6	see detail	
f	Administrative Committee-Special Needs Accommodation and other expenses	\$15	\$15	see detail	
g	Financial Audit	\$15	\$15		
h	Compliance Audit	\$500	\$500		
i	Surcharge Remittance Audit	\$600	\$600		
j	Claim Audit	\$900	\$900		
k	Banking Fee	\$23	\$23		
l	Interagency Cost *	\$463	\$596	Per Controllers Letter	
m	CPUC Staff Costs	\$158	\$158	Fiscal & Legal Only	
n	Other Operating Expenses	\$62	\$62	see detail	
o	Total Program Expenses (sum of a thru o)	\$34,512	\$34,645		
7	SB 720 funding		\$3,000		
8	03-04 PROGRAM EXPENSE INCLUDING FUNDING FOR SB 720		\$37,645		
	FUND BALANCE AS OF JUNE 30, 2004 (Ln 6 - Ln 8)	\$78,034	\$83,750		
Note: \$150M loaned to general fund per 03-04 Budget Act					

California Teleconnect Fund			TD Proposed	Adopted
PUBLIC PROGRAM BUDGET DEVELOPMENT (\$000's)		Submitted by	FY 04-05	FY 04-05
FOR FISCAL YEAR 2004-2005 (July 1, 2004 through June 30, 2005)		the CTF-AC	(\$ in 000's)	(\$ in 000's)
A	FY 04-05 TELECOMMUNICATIONS REVENUE SUBJECT TO SURCHARGES		\$20,947,125	\$20,947,125
B	SURCHARGE RATES	0%	0%	0%
1	BEGINNING FUND BALANCE carried over from 03-04	\$78,034	\$83,750	\$83,750
2	PRIOR PERIOD ADJUSTMENTS	\$0	\$0	\$0
3	REVISED BEGINNING FUND BALANCE (sum of Ln 1 and Ln 2)	\$78,034	\$83,750	\$83,750
4	REVENUES			
a	Surcharges (Ln A* Ln B)	\$0	\$0	\$0
b	Investment Income (based on interest rate of 2% and projected	\$1,435	\$1,435	\$1,435
c	Others		\$0	\$0
d	Total 04-05 Revenues (sum of a thru c)	\$1,435	\$1,435	\$1,435
5	FUNDS AVAILABLE FOR FY 04-05 (Sum of Ln 3 and Ln 4)	\$79,469	\$85,185	\$85,185
6	PROGRAM EXPENSES			
a	Carrier Claims	\$35,203	\$35,203	\$35,203
b	Interest for Untimely Payment	\$100	\$100	\$100
c	Other Program Services	\$0	\$0	\$0
e	Administrative Committee-Per Diem	\$4	\$5	\$5
f	Administrative Committee-Travel and Others	\$21	\$6	\$6
g	Administrative Committee-Special Needs Accommodation	\$7	\$15	\$15
h	Financial Audit	\$100	\$100	\$100
i	Compliance Audit	\$500	\$500	\$500
j	Surcharge Remittance Audit	\$600	\$600	\$600
k	Claim Audit	\$900	\$900	\$900
l	Banking Fee	\$23	\$23	\$23
m	Interagency Cost	\$463	\$771	\$771
n	CPUC Staff Costs	\$224	\$159	\$159
o	Other Operating Expenses	\$300	\$300	\$300
p	Total Program Expenses (sum of a thru o)	\$38,445	\$38,682	\$38,682
7	FUND BALANCE AS OF JUNE 30, 2005 (Ln 5 - Ln 6p)	\$41,024	\$46,503	\$46,503